

ORIGINAL
OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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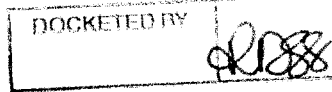
20 JAN 19 P 2:03

TO: THE COMMISSION

JAN 19 2011

FROM: Utilities Division

DATE: January 19, 2011



RE: DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL OF THE 2011 RENEWABLE ENERGY STANDARD AND TARIFF PLAN (DOCKET NO. E-01703A-10-0267)

Background

On July 1, 2010, Duncan Valley Electric Cooperative, Inc. ("Duncan Valley" or "Cooperative") filed its 2011 Renewable Energy Standard and Tariff ("REST") Plan in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. Previously, Arizona Electric Power Cooperative, Inc. ("AEP CO") had filed REST Plans on behalf of its Arizona member distribution cooperatives. The most recent REST Plan (approved in Decision No. 71451) filed by AEP CO was filed on behalf of Duncan Valley, Graham County Electric Cooperative, Inc. ("Graham County"), and Trico Electric Cooperative, Inc. ("Trico"). Each Cooperative filed, for Commission approval, separate tariffs in association with the AEP CO 2010 REST Plan. On September 18, 2009, Duncan Valley filed its application for approval of its REST associated with AEP CO's Amended and Restated 2010 REST Plan (filed on November 6, 2009) pursuant to A.A.C. R14-2-1808. On January 6, 2010, the Commission issued Decision No. 71449, which approved Duncan Valley's current REST.

The 2011 REST Plan

The SunWatts Renewable Energy Purchase Program

According to Duncan Valley, it would continue to offer this voluntary program in which retail customers can choose to support renewable energy by purchasing blocks of "green energy." The retail customers can purchase 50 kWh blocks of green energy at a cost of \$2.00 per block.

The SunWatts Residential and Commercial Rebate Program

The SunWatts rebate program, offered in compliance with A.A.C. R14-2-1809, provides incentives to customers for installation of qualifying photovoltaic ("PV"), solar water heating, small wind systems, and other renewable technologies. For PV systems up to 10 kW in size, customers would continue to receive an Up-Front Incentive ("UFI") of \$3.00 per installed watt.

Small wind systems up to 10 kW in size would receive a UFI of \$2.50 per installed watt. UFIs for PV and small wind systems would not exceed 40 percent of the total system cost. In addition, Duncan Valley would offer UFIs for solar water heating and solar daylighting as outlined in the table below. Duncan Valley would own all the Renewable Energy Credits ("RECs") from a project receiving UFIs for its operational life. Projects would be rebated on a first-come, first-serve basis until funding is no longer available. Systems which have been approved and not yet rebated due to lack of funding would be placed on a reservation list until additional funding becomes available. Once funding becomes available, rebates would be paid following a final inspection of the system.

For PV and small wind systems that are larger than 10 kW in size, customers would receive Production Based Incentives ("PBIs"), up to 50 percent of the total system cost. PBIs would be available for a term of up to 20 years but may be limited to the expected operational life of the specific technology. In addition, Duncan Valley would own all the RECs from the project receiving PBIs for the term of the REC agreement. Duncan Valley would offer PBIs for additional technologies at levels provided in Duncan Valley's 2011 REST Plan and shown in the table below. Further, systems eligible for PBIs would be subject to a competitive selection process, resulting in the most cost-effective projects being rebated. Projects eligible for PBIs would be competitively selected on a quarterly to semiannual basis. If a project is not selected, the applicant is then informed of the project's status and given an opportunity to resubmit the project for consideration during the next selection process. Further, Duncan Valley would reserve the right to negotiate the PBI agreement based on current market conditions to obtain the most competitive priced RECs. Projects that are one megawatt ("MW") or greater would not be eligible for the incentives outlined in the table below, but instead would be negotiated on a per-project basis relative to market conditions.

Installations are required to be performed by licensed renewable energy contractors, electricians, or plumbers (in the case of solar water heaters). Duncan Valley may permit self-installations only if the installation has been inspected and verified by a licensed contractor. In addition, customers would continue to be able to assign incentive payments to the contractor installing the system.

Duncan Valley generally follows the program process guidelines of the Uniform Credit Purchase Program ("UCPP") working group recommendations. Staff recommends that, if the Commission approves a UCPP, that Duncan Valley should be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies in its proposed REST Plans for later years. To the extent that Duncan Valley believes that different incentive levels than those of the UCPP are justified, particularly in remote, rural areas, Duncan Valley could develop such proposals.

The table below illustrates the incentive levels provided for each technology proposed in Duncan Valley's 2011 REST Plan.

Technology	UFIs	PBIs
Solar Electric	\$3.00 per watt up to 10 kW <i>Not to exceed 40% of the system cost</i>	\$0.14 (max) per kWh (over 10 kW) <i>Not to exceed 50% of the system cost</i>
Small Wind	\$2.50 per watt up to 10 kW <i>Not to exceed 40% of the system cost</i>	\$0.097 (max) per kWh (over 10 kW) <i>Not to exceed 50% of the system cost</i>
Solar Water Heating	\$0.75 per kWh for first year savings	
Solar Daylighting	\$0.18 per kWh for first year savings	
Geothermal -Electric -Thermal		\$0.020 per kWh over 20 yrs \$0.040 per kWh over 20 yrs
Biogas/Biomass -Electric -Thermal -Cooling -CHP-Electric -CHP-Thermal		\$0.050 per kWh over 20 yrs \$0.013 per kWh over 20 yrs \$0.027 per kWh over 20 yrs \$0.029 per kWh over 20 yrs \$0.015 per kWh over 20 yrs
Solar space Cooling		\$0.108 per kWh over 20 yrs

Currently, under the AEPCO 2010 Restated REST Plan, Duncan Valley offers the following incentives:

Technology	UFIs	PBIs
Solar Electric	\$3.00 per watt up to 10 kW <i>Not to exceed 40% of the system cost</i>	\$0.14 (max) per kWh (over 10 kW) <i>Not to exceed 50% of the system cost</i>
Small Wind	\$3.00 per watt up to 10 kW <i>Not to exceed 40% of the system cost</i>	\$0.14 (max) per kWh (over 10 kW) <i>Not to exceed 50% of the system cost</i>
Solar Water Heating	\$0.75 per kWh for first year savings	
Solar Daylighting	\$0.18 per kWh for first year savings	
Geothermal -Electric -Thermal		\$0.022 per kWh over 20 yrs \$0.043 per kWh over 20 yrs
Biogas/Biomass -Electric -Thermal -Cooling -CHP-Electric -CHP-Thermal		\$0.054 per kWh over 20 yrs \$0.013 per kWh over 20 yrs \$0.029 per kWh over 20 yrs \$0.031 per kWh over 20 yrs \$0.016 per kWh over 20 yrs
Solar space Cooling		\$0.115 per kWh over 20 yrs

Duncan Valley has agreed to purchase Renewable Energy Credits ("RECs") from the commercial distributed generation geothermal project in Willcox, Arizona. Duncan Valley has agreed to pay Willcox Greenhouse, LLC an incentive equal to the lesser of \$0.045 for each REC generated or a yearly incentive cap. The total yearly incentive cap for years one through five is approximately \$89,500 and \$59,600 for years six through ten. Duncan Valley's share of the project output was four percent for January-June of 2010 and eight percent for the remainder of 2010. Therefore, Duncan Valley's share of the yearly incentive cap is approximately \$5,372 for year one; \$7,162 for years two through five; and \$4,775 for years six through ten.

The SunWatts Large-Scale Purchase Power Contract & Generating Program

The large-scale Generating Program would have Duncan Valley, on its own or in partnership with others, install and assist in the development of large-scale renewable resources either through purchase power agreements or by the construction of utility owned resources. Duncan Valley has indicated that there are no plans for a large-scale project in 2011.

SunWatts PV for Government, Schools and Nonprofits Program

Duncan Valley would offer PBIs to third-party developers or those with access to Stimulus funding that would be interested in installing renewable systems on government, school, and nonprofit buildings.

SunWatts Educational Grant Program

Duncan Valley would continue to offer teachers in its service territory an education grant for the development of renewable curricula for the classroom. Each teacher would be limited to a grant of \$1,000 with a budgeted amount for this program of \$3,000. In addition, Duncan Valley will continue to support Arizona Utilities for Renewable Energy Education ("AZURE") in partnership with other utilities to develop renewable education materials for teachers in Arizona.

Tariffs

Duncan Valley is not proposing to change the current RES surcharge or monthly maximums for 2011. The kWh surcharges and monthly maximums for Duncan Valley's current RES tariff are:

Customer Class	Existing Surcharges (per kWh)	Existing Maximums (per month)
Residential	\$0.009477	\$2.00
Governmental & Agricultural	\$0.001663	\$24.70
Governmental & Agricultural >3MW	\$0.001663	\$74.10
Non-Residential	\$0.009477	\$74.10
Non-Residential >3MW	\$0.009477	\$222.30

Duncan Valley believes that the current surcharge rates and the monthly maximums contained in Duncan Valley's current RES Tariff will be sufficient to fund its annual budget for 2011. Duncan Valley is not filing a revised Renewable Energy Standard Tariff, Voluntary RES Contribution Program Tariff, or Customer Self-Directed Tariff.

Budget

According to Duncan Valley, the funding from the RES surcharge is estimated to be a total of \$80,900. Duncan Valley has allocated approximately \$3,100, or 4 percent of the total funds collected on administrative and advertising expenses.

The table below indicates Duncan Valley's estimated REST budget for 2011:

Category	\$ Amount of Total Budget
Rebate Program	\$72,800
---Residential Distributed Generation	\$55,600
---Commercial Distributed Generation	\$17,200
LS*Purchase Power & Generation Program	\$0
Educational Grant Program	\$3,000
Advertising	\$2,000
Administration/R&D	\$3,100
Total	\$ 80,900

*LS=Large Scale

The table below indicates the REST funds Duncan Valley estimates that would be collected in 2011 by each customer class:

Customer Class	Amount	Projected 2011 Total kWh Usage
Residential	\$32,848	14,672,000
Non-Residential	\$30,620	3,602,000
Government/Agricultural	\$5,690	3,685,000
Total	\$69,158	21,959,000

As part of the AEPCO 2010 REST Plan, Duncan Valley's total budget/ contribution was a total of \$75,600. Duncan Valley anticipates approximately \$25,000 in REST funds collected in 2010 will be carried over to 2011. This in combination with the estimated funds to be collected in 2011 would help Duncan Valley meet the 2011 REST Rules requirements. The Duncan Valley 2011 REST Plan indicated that any allocated funds not used in a particular year would be carried over to the following year and may be used in subsequent years to support any REST program. Staff believes that Duncan Valley should also be able to transfer any allocated funds not used by a particular program to any other program during subsequent years.

Staff's Review of the Duncan Valley 2011 REST Plan

Staff has reviewed Duncan Valley's proposed 2011 REST Plan. Staff believes the proposed REST Plan should be approved. However, according to information provided by Duncan Valley, the number of customers that have participated in the Rebate Program has declined. In addition, Duncan Valley continues to have excess funds to carry over to support subsequent REST Plans. Due to the decline in participation and excess REST funding, Staff does not believe a decrease in the incentives as proposed by Duncan Valley is appropriate at this time. Staff believes that the current incentive levels would continue to be attractive to customers interested in participating in the Rebate Program. In addition, Staff believes that with the current incentive levels, Duncan Valley would continue to be able to sustain its budget in 2011. Staff believes that the Duncan Valley's proposed budget of \$80,900 for 2011 is appropriate and will assist in meeting the REST Rules requirements.

Recommendations

Staff recommends approval of the Duncan Valley 2011 REST Plan as discussed herein. Staff recommends that the Commission approve Duncan Valley's proposed budget of \$80,900. In addition, Staff recommends that Duncan Valley continue to offer the incentive levels approved in the AEPCO 2010 Restated REST Plan, Decision No. 71451. Staff further recommends that Duncan Valley's Renewable Energy Standard Tariff, Customer Self-Directed Tariff, and the Voluntary Renewable Energy Standard Contribution Program Tariff, currently on file with the Commission, remain in effect until further Order of the Commission.



Steven M. Olea
Director
Utilities Division

SMO:CLA:lhmr\RM

ORIGINATOR: Candrea Allen

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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF DUNCAN VALLEY
ELECTRIC COOPERATIVE, INC. }
APPLICATION FOR APPROVAL OF THE }
2011 RENEWABLE ENERGY STANDARD }
AND TARIFF PLAN }
_____ }

DOCKET NO. E-01703A-10-0267
DECISION NO. _____
ORDER

Open Meeting
February 1 and 2, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Duncan Valley Electric Cooperative, Inc. ("Duncan Valley" or "Cooperative") is certificated to provide electricity as public service corporation in the state of Arizona.

Background

2. On July 1, 2010, Duncan Valley filed its 2011 Renewable Energy Standard and Tariff ("REST") Plan in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. Previously, Arizona Electric Power Cooperative, Inc. ("AEPCO") had filed REST Plans on behalf of its Arizona member distribution cooperatives. The most recent REST Plan (approved in Decision No. 71451) filed by AEPCO was filed on behalf of Duncan Valley, Graham County Electric Cooperative, Inc. ("Graham County"), and Trico Electric Cooperative, Inc. ("Trico"). Each Cooperative filed, for Commission approval, separate tariffs in association with the AEPCO 2010 REST Plan. On September 18, 2009, Duncan Valley filed its application for approval of its REST associated with AEPCO's Amended and Restated 2010 REST Plan (filed

on November 6, 2009) pursuant to A.A.C. R14-2-1808. On January 6, 2010, the Commission issued Decision No. 71449, which approved Duncan Valley's current REST.

The 2011 REST Plan

The SunWatts Renewable Energy Purchase Program

3. According to Duncan Valley, it would continue to offer this voluntary program in which retail customers can choose to support renewable energy by purchasing blocks of "green energy." The retail customers can purchase 50 kWh blocks of green energy at a cost of \$2.00 per block.

The SunWatts Residential and Commercial Rebate Program

4. The SunWatts rebate program, offered in compliance with A.A.C. R14-2-1809, provides incentives to customers for installation of qualifying photovoltaic ("PV"), solar water heating, small wind systems, and other renewable technologies. For PV systems up to 10 kW in size, customers would continue to receive an Up-Front Incentive ("UFI") of \$3.00 per installed watt. Small wind systems up to 10 kW in size would receive a UFI of \$2.50 per installed watt.

5. UFIs for PV and small wind systems would not exceed 40 percent of the total system cost. In addition, Duncan Valley would offer UFIs for solar water heating and solar daylighting as outlined in the table below. Duncan Valley would own all the Renewable Energy Credits ("RECs") from a project receiving UFIs for its operational life. Projects would be rebated on a first-come, first-serve basis until funding is no longer available. Systems which have been approved and not yet rebated due to lack of funding would be placed on a reservation list until additional funding becomes available. Once funding becomes available, rebates would be paid following a final inspection of the system.

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1 Further, systems eligible for PBIs would be subject to a competitive selection process, resulting in
2 the most cost-effective projects being rebated.

3 7. Projects eligible for PBIs would be competitively selected on a quarterly to
4 semiannual basis. If a project is not selected, the applicant is then informed of the project's status
5 and given an opportunity to resubmit the project for consideration during the next selection
6 process. Further, Duncan Valley would reserve the right to negotiate the PBI agreement based on
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8 megawatt ("MW") or greater would not be eligible for the incentives outlined in the table below,
9 but instead would be negotiated on a per-project basis relative to market conditions.

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14 installing the system.

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18 mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies in its
19 proposed REST Plans for later years. To the extent that Duncan Valley believes that different
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12. Duncan Valley has agreed to purchase Renewable Energy Credits ("RECs") from the commercial distributed generation geothermal project in Willcox, Arizona. Duncan Valley has agreed to pay Willcox Greenhouse, LLC an incentive equal to the lesser of \$0.045 for each REC generated or a yearly incentive cap. The total yearly incentive cap for years one through five is approximately \$89,500 and \$59,600 for years six through ten. Duncan Valley's share of the project output was four percent for January-June of 2010 and eight percent for the remainder of

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Tariffs

16. Duncan Valley is not proposing to change the current RES surcharge or monthly maximums for 2011. The kWh surcharges and monthly maximums for Duncan Valley's current RES tariff are:

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Non-Residential	\$0.009477	\$74.10
Non-Residential >3MW	\$0.009477	\$222.30

17. Duncan Valley believes that the current surcharge rates and the monthly maximums contained in Duncan Valley's current RES Tariff will be sufficient to fund its annual budget for ...

2011. Duncan Valley is not filing a revised Renewable Energy Standard Tariff, Voluntary RES Contribution Program Tariff, or Customer Self-Directed Tariff.

Budget

18. According to Duncan Valley, the funding from the RES surcharge is estimated to be a total of \$80,900. Duncan Valley has allocated approximately \$3,100, or 4 percent of the total funds collected on administrative and advertising expenses.

19. The table below indicates Duncan Valley's estimated REST budget for 2011:

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20. The table below indicates the REST funds Duncan Valley estimates that would be collected in 2011 by each customer class:

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Government/Agricultural	\$5,690	3,685,000
Total	\$69,158	21,959,000

21. As part of the AEPCO 2010 REST Plan, Duncan Valley's total budget/contribution was a total of \$75,600. Duncan Valley anticipates approximately \$25,000 in REST funds collected in 2010 will be carried over to 2011. This in combination with the estimated funds to be collected in 2011 would help Duncan Valley meet the 2011 REST Rules requirements. The Duncan Valley 2011 REST Plan indicated that any allocated funds not used in a particular year would be carried over to the following year and may be used in subsequent years to support any REST program. Staff believes that Duncan Valley should also be able to transfer any allocated funds not used by a particular program to any other program during subsequent years.

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...

Staff's Review of the Duncan Valley 2011 REST Plan

22. Staff has reviewed Duncan Valley's proposed 2011 REST Plan. Staff believes the proposed REST Plan should be approved. However, according to information provided by Duncan Valley, the number of customers that have participated in the Rebate Program has declined. In addition, Duncan Valley continues to have excess funds to carry over to support subsequent REST Plans. Due to the decline in participation and excess REST funding, Staff does not believe a decrease in the incentives as proposed by Duncan Valley is appropriate at this time. Staff believes that the current incentive levels would continue to be attractive to customers interested in participating in the Rebate Program. In addition, Staff believes that with the current incentive levels, Duncan Valley would continue to be able to sustain its budget in 2011. Staff believes that the Duncan Valley's proposed budget of \$80,900 for 2011 is appropriate and will assist in meeting the REST Rules requirements.

Recommendations

23. Staff has recommended approval of the Duncan Valley 2011 REST Plan as discussed herein. Staff has recommended that the Commission approve Duncan Valley's proposed budget of \$80,900. In addition, Staff has recommended that Duncan Valley continue to offer the incentive levels approved in the AEPCO 2010 Restated REST Plan, Decision No. 71451. Staff has further recommended that Duncan Valley's Renewable Energy Standard Tariff, Customer Self-Directed Tariff, and the Voluntary Renewable Energy Standard Contribution Program Tariff, currently on file with the Commission, remain in effect until further Order of the Commission.

CONCLUSIONS OF LAW

1. Duncan Valley Electric Cooperative, Inc. is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Duncan Valley Electric Cooperative, Inc. and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated January 19, 2011, concludes that it is in the public interest to approve the Duncan Valley Electric Cooperative, Inc. 2011 REST Plan as specified in this order.

ORDER

IT IS THEREFORE ORDERED that the Duncan Valley Electric Cooperative, Inc. 2011 REST Plan is approved as discussed herein.

IT IS FURTHER ORDERED that the current incentive levels remain in effect until further Order of the Commission.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc.'s Renewable Energy Standard Tariff, Customer Self-Directed Tariff, and the Voluntary Renewable Energy Standard Contribution Program Tariff, currently on file with the Commission, remain in effect until further Order of the Commission.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I ERNEST G. JOHNSON,
Executive Director of the Arizona Corporation Commission,
have hereunto, set my hand and caused the official seal of
this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:CLA:lm\RM

Decision No. _____

1 SERVICE LIST FOR: Duncan Valley Electric Cooperative, Inc.
2 DOCKET NO. E-01703A-10-0267

3 Mr. John Wallace
4 Grand Canyon State Electric Cooperative Association
120 North 44th Street, Suite 100
5 Phoenix, Arizona 85034

6 Mr. Michael M. Grant
7 Gallagher & Kennedy, PA
2575 East Camelback Road
8 Phoenix, Arizona 85016-9225

9 Mr. Steven M. Olea
Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
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12 Ms. Janice Alward
13 Chief Counsel, Legal Division
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14 1200 West Washington Street
15 Phoenix, Arizona 85007